Fundamentals of Private Insurance

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What Is Private Insurance?

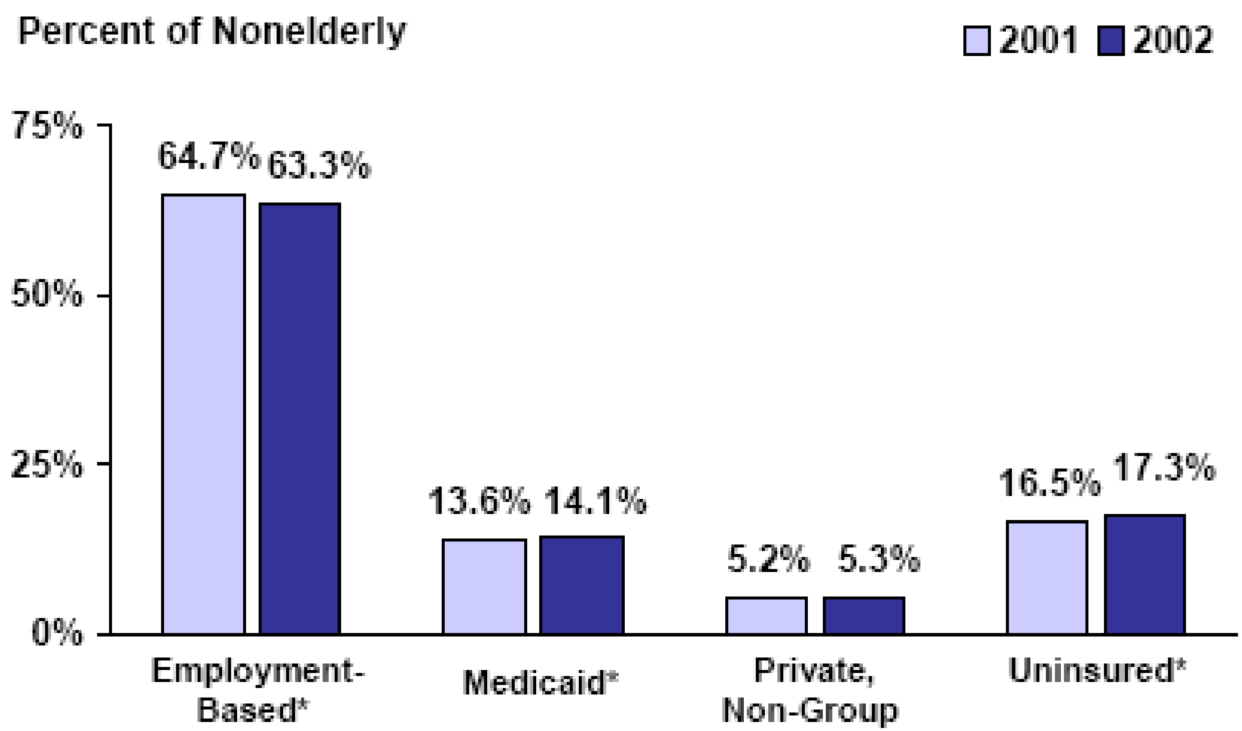
- A mechanism for sharing the risk of catastrophic loss among many persons similarly situated, most of whom will not suffer the loss, so that those who do can be financially compensated
- A voluntary contract that obliges the insurer to pay the insured upon the occurrence of a specific peril

What Is an “Insurable Risk”?

- An "insurable risk" is typically an event that is rare, unpredictable and financially ruinous
- Sometimes the insurance mechanism is used to cover the cost of events that are not classically insurable
  - These are desired events, such as health maintenance and disease prevention
  - affordable because ...

How Do People Get Insurance?

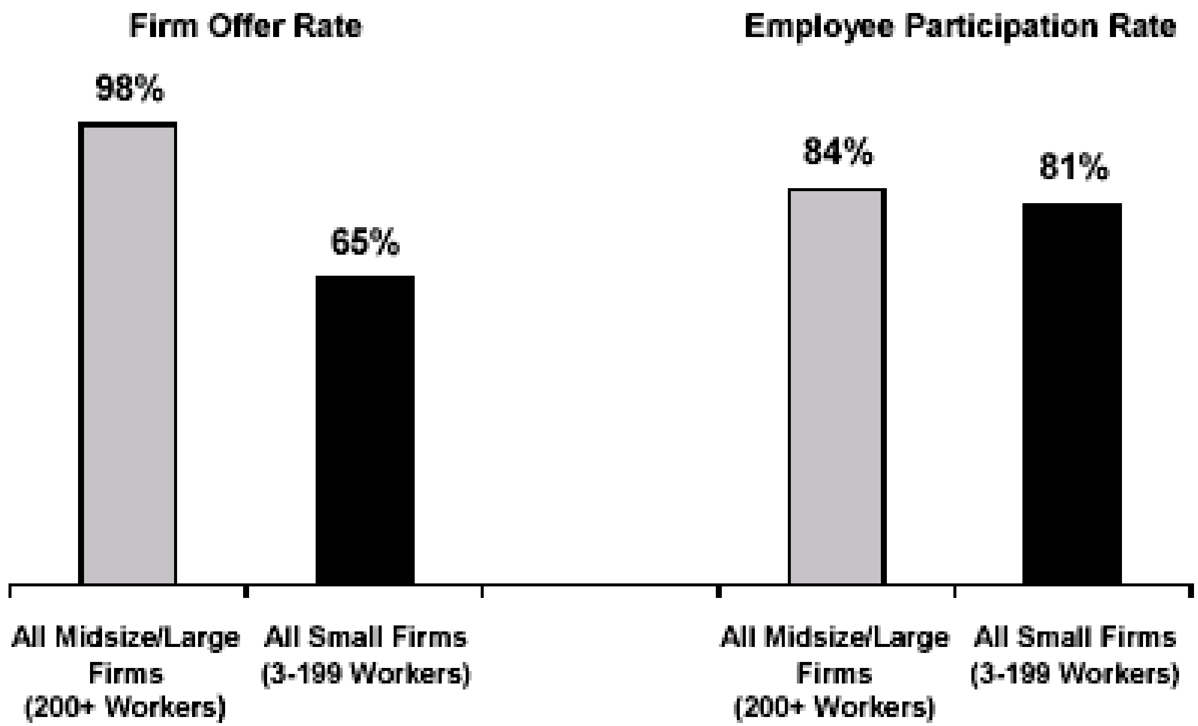
- Mainly thru employment, large & small groups
- Other “group” or association, individual coverage



Source: Kaiser Fam. Found

Health Insurance Coverage Is Not Universal

- For employment based insurance:



The Private Insurance Market

- Blues plans (e.g., CareFirst)
  - Historically non-profit
  - Broad provider participation
- Closed panel plans (Kaiser-Permanente)
- “Commercial” insurers (e.g., Aetna, UnitedHealth care)
  - Often for-profit

The Private Insurance Market, Cont.

- Fee for service, preferred provider networks
- Health Maintenance Organizations (HMOs) not started by insurer
- ERISA employer self-funded plans

The Rising Cost of Coverage: Causes

- Advances in medical treatment
- General inflation of costs
- Consolidation of market

Attempts to Contain Costs

- Managed care
- Reduction in covered services
- Exclusions
- Cost sharing
- Use of bargaining power to “squeeze” providers

Costs of Coverage, Two Key Factors

- “Adverse” selection
  - Tendency of insurance to attract higher than random mix of risks
- “Moral” hazard
  - Tendency of people to spend more when insured than on own
- Neither caused by immorality, just by acting in self-interest
- Insurers protect pool of premiums by:
  - “Underwriting” – proof of insurability, rating by risk
  - Cost sharing with patients, “managing” care

Insurance Regulation

- States have main responsibility
- Most fundamental task = assure solvency
  - Adequate capitalization, sometimes premium review
- Federal regulation (ERISA, Department of Labor)

Issues for State Planning Grant

- Perceived problems in existing market
- How much of coverage is small group/individual
- What does coverage cost
- What workers and dependents are uninsured

Issues for State Planning Grant, Cont.

- Attitudes of employers, employees, and uninsured
  - Willingness to pay for coverage
  - Styles of coverage appropriate
- Relation of public programs to private coverage